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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the CapitalSource investors update conference call. My name is [Sylvana] and I will be your coordinator for today.

At this time, all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of the conference. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to your host for today’s call, Mr. Dennis Oakes, Vice President of Investor Relations. You may proceed.

Dennis Oakes - CapitalSource, Inc. - VP IR

Thank you, Sylvana. Good afternoon and thank you, everyone, for joining us today. With me are John Delaney, our chairman and CEO; Tom Fink, our Chief Financial Officer, and Tad Lowrey, President and CEO of CapitalSource Bank.

This call is being webcast live on our Web site, and a recording of the call will be available beginning at approximately 6:15 P.M. Eastern Time today. The press release put out this morning provides details for accessing that archived call.
Investors are urged to read the forward-looking statements language in our press release and presentation, but essentially it says statements made on this call, which are not historical facts, may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All forward-looking statements, including statements regarding future financial operating results, involve risks, uncertainties and contingencies, many of which are beyond the control of CapitalSource, and which may cause actual results to differ materially from anticipated results.

CapitalSource is under no obligation to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise, and we expressly disclaim any obligation to do so.

More detailed information about the risk factors can be found in our reports filed with the SEC.

On July 15, we issued a press release stating our intent to file a registration statement with the SEC for the Initial Public Offering of our Healthcare net lease business. CapitalSource Healthcare REIT will be a carve-out of CapitalSource's Healthcare net lease segment and will be managed by CapitalSource.

At this point in the SEC registration process, we are legally barred from going into detail on the transaction. As such, we would respectfully ask callers not to pose questions today relating to the CapitalSource REIT. We have posted a presentation, as I mentioned, on our Web site, and we will be going through that in a moment, so you may follow along with the slides that are on the Web site.

I will turn the call over now to John Delaney. John?

John Delaney - CapitalSource, Inc. - Chairman, CEO

Thank you, Dennis. Good afternoon, everyone. We are actually all in California, doing this call because we are here for the various activities around the bank opening.

The purpose of the call I would say is really twofold -- first, to provide you with a fair amount of detailed information around CapitalSource Bank, and the positive implications that we believe it has for the Company. That's the main purpose of our time here this afternoon. But also we hope to explain to you why we are so excited about the strategic positioning of the Company, in light of the market opportunity that's in front of us, which we really believe is quite extraordinary and we think we are well positioned to take advantage of. So that's kind of framework for what we hope to accomplish here today.

As Dennis indicated, we do have a presentation and I will do my best to walk people through, page by page, and I will indicate what pages we are on as we go through the presentation. It's probably the most efficient way for everyone to follow along. So with that, let me begin here.

So I'm on Page 4 of the presentation. As I said, we are very excited about CapitalSource Bank on multiple levels. The Bank did commence operations on July 25 with 22 retail branches across Southern California. A lot of work went into getting this transaction done and I want to publicly commend everyone not only on the CapitalSource team but the new members of the CapitalSource team that came from Fremont, as well as Fremont's prior management team, in helping us get this very exciting transaction complete.

Establishing this bank does mark the realization of a strategy that we've been at for some time, which is to pair our commercial lending business, which we view as the market leader, with the depository. We think that simple pairing will create tremendous value for our shareholders.

What's nice about this transaction is we are able to start our depository strategy with significant scale. We have over $5 billion of deposits in the Bank, and in prior periods, the deposit balance was much higher. We are able to do that without any legacy
asset issues, so we are actually doing what everyone wants to do in today’s market, which is to start a bank with a very clean balance sheet. We’ve been at this for three years, and it is a very rewarding for all of us that we can actually launch our depository strategy with such good positioning.

So we are now positioned to take advantage of the lending opportunities in the marketplace, which we deem very attractive. As we like to say, the only thing that really matters in a liquidity crisis -- and we are certainly in a world-class liquidity crisis right now. The only thing that really matters is having liquidity. CapitalSource has abundant liquidity, not only through our depository but through many of the other balance-sheet accomplishments we've been able to do at the Company across the last year.

We also have the leading middle-market lending platform in the country. We have proprietary underwriting and diligence resources focused on a specific market, a seasoned management team and a proven credit experience, which we expect to continue.

At inception, CapitalSource Bank holds approximately 43% of our commercial lending assets.

At this point, for the next two slides, I want to turn the call over to Tad Lowrey. Tad is the President and the CEO of CapitalSource Bank. Among the many things that we are very fortunate of here today, is to have Tad on our team. He’s a very experienced and highly regarded executive in the California banking community with over 20 years of experience in California banking. Most recently, he was the President and CEO of Jackson Federal Bank. Prior to that, he was the CEO of CENFED Bank, both highly successful institutions that he steered towards a successful sale to strategic buyers. He is also a member of the Board, a member of the Federal Homeland Bank of San Francisco. So again, we are fortunate to have Tad. At this point, I would like to turn the call over to him so that he can provide some more detail on CapitalSource Bank in particular. Tad?

Tad Lowrey  - CapitalSource, Inc. - President & CEO of CapitalSource Bank

Thank you, John. Good afternoon, everyone. I will just follow along these two slides, and then -- with very little detail and be available for questions at the end of the presentation.

The offices that were operating as of Friday under the banner of CapitalSource Bank -- there are 18 of the deposit offices in Southern California; the other four are in Central California. There’s a map on the following page. We have over 65,000 customers, and we offer CDs, savings, and money market accounts.

While the deposit base has shrunk to $5 billion based on Fremont’s financial issues and Fremont running off deposits and pricing, this deposit base or this footprint, excuse me, was as high as $8 billion less than two years ago. So we really don’t think we need any more scale in California to raise the amount of money that we need to fund our growth.

The balance sheet that the Bank opened its doors with is as clean of a balance sheet as you will find in a bank anywhere. We have $2 billion in short-term investments, over $2 billion of loans, all performing loans and seasoned loans that we purchased from CapitalSource. We had an independent valuation performed on that on a loan-by-loan basis and the average purchase price, as you can see there, was 99.5%.

The only asset that we purchased from Fremont is what’s called an A participation interest. This is a senior piece of an almost $5 billion pool of diversified commercial real estate-secured assets. We have 70% all principle reductions, regardless of whether those come from regular payments, payoffs, foreclosures. They come to us first.

In addition, the servicer and the owner of the remainder -- by the way, we own $1.8 billion out of that roughly $5 billion pool -- because we get 70% of the reductions, and because the owner of that is required to continue funding. Since there is some construction in that, our percentage continues to decline. As a result, you would have to have a phenomenal number of defaults and severity loss. As you can see, they are 90% defaults with 50% loss severity before we had a dollar loss of principal.
We also had that pulled -- asset valued by a third-party firm. We aren't buying that pool at a 3% discount, and we expect it to pay off in about a year and a half based on the current level of repayment. The combination of the existing cash and the rapid paydown of this will give us all of the funding we need to continue to grow the asset side of the Bank without having to pay up for deposits.

We also are beginning with $921 million of common equity capital. That's a risk-based ratio of almost 16% in a world where only 10% is required. We are starting with extra liquidity, extra capital, and clean assets.

Turning to Page 6, you see the map of Southern California, and you see the Fresno and the four central California branches. In the bottom left, you see the Santa Barbara office and the remainder are scattered around the Los Angeles basin. We have been operating those branches as CapitalSource Bank since the opening Friday, so today is our second day. We've already completed the rebranding of these branches, and we are in the middle of a substantial public relations and marketing campaign now to stem existing deposit flows.

The Bank opens its doors with 350 employees. That's a combination of credit administration folks from CapitalSource, branch and back-office folks from Fremont, and new employees that we've brought into the institution.

I won't repeat my background, but you will see, at the end of the presentation, that we have a very distinguished board, all with deep banking connections in California. I will stop there.

John Delaney - CapitalSource, Inc. - Chairman, CEO

Great. Thanks, Tad.

So now, we are shifting to Page 7. In this page, the punchline here is pretty straightforward. It demonstrates the impact of CapitalSource Bank on the overall CapitalSource funding platform. We are actually going to be updating this page, because some of the dollar amounts in the bottom of the pages are off, but the correct number is the 41%; a full 41% of our debt in our commercial lending business will be comprised of deposit-based funding. So again, what's nice about our launching of this depository strategy at this time in the market is that we're doing it with scale, which is very important.

So onto Page 9, where we kind of provide an overview of what I like to call the strategic evolution of CapitalSource really across the last eight years. It's -- I'm sorry, I'm on Page 8.

I want to make an important distinction here, because what's really happened with the business is we haven't really changed across the eight years; we've evolved. The reason we haven't changed is because, we've always been focused on certain things. I would summarize those as really three things -- first, being a leader in commercial lending, and I think, by any measure, we are the leading middle-market commercial lender in the United States. That hasn't changed across the last eight years.

Secondly, we've always been focused on asset quality. Again, our asset quality has proven itself across the long term, particularly in the last year, where our portfolio hasn't been growing significantly yet our credit stats remain very strong, which is I think particularly impressive when you don't have a growing base of business and you can maintain good, strong credit stats. It speaks to the quality of the assets of this company and that's been consistent as a focus area of ours across the last eight years.

Then finally managing the business to high return on equity, which is the reason we are here.

So again, to drill down a little deeper on this page, kind of the first phase of the Company's evolution was from the starting of the Company in the year 2000 to 2005. What we did is we started a business to take advantage of a market opportunity that is in some ways very similar to the market opportunity we see today, which is there was not significant liquidity in the market and it was a great time to be in the lending business. We started a business and built a business that became the premier
middle-market lending platform in the country, fully built out over 20 offices across the United States, over 500 employees, all of them focused on attractive end markets for middle-market finance. That phase of the Company's evolution was characterized by fast growth.

As liquidity returned to the markets and returned with abundance, we started to focus on efficiencies in our business. That's when we made a decision to have the business treated as a Real Estate Investment Trust. That phase was from 2006 to 2008.

What being a REIT allowed us to do was to continue to focus on senior lending. We didn't have to focus on chasing yield by going deeper in the capital structure. We could use those tax efficiencies and those tax savings to invest in our business, to allow us to stay competitive as a senior lender, and deliver an attractive ROE. Being a REIT also allowed us to leverage our Healthcare platform, which is one of the anchors of the Company, into a new business, which is the Healthcare net lease business, which has been a very valuable addition to the Company. We think that value will be realized very soon, as we endeavor to take that business public.

Now, we are entering a new phase, and this new phase in some ways is similar to the opportunity that was in front of us when we started the Company, but in many ways it is much more attractive because the liquidity issues and the stress in the market right now is much deeper and likely to last longer than it did in the prior cycle. What we've been trying to do for the last few years is, mindful that there may be some change in the liquidity profile of the markets, we've been focused on finding a funding source that wasn't correlated to our assets so that we could continue to meet loans in markets that are very attractive, and not have to worry about our funding. That's why we've been focused so much on depository funding for the last several years, and that's what we have today. So it is a transformative moment in the Company that we can transition this leading middle-market lending platform with the depository, and we do not have to rely on the securitization market, which in my judgment will be impaired for years. That's the phase we are entering now, which I would classify as a fast growth phase.

So now I'd like to turn our attention to the market opportunity that we view in front of us, and we kind of summarize it as saying we want to lend smart when others can't lend at all.

So on Page 10, we summarize how we view the market opportunity for commercial lending. It obviously starts with the view that the country's financial system is in a very -- in a state of chaos. We may be in the midst of the most serious financial crisis this country has experienced since the Depression. Most banks and financial services companies are either undercapitalized or on the defensive because of asset-quality issues. This is creating a very significant kind of lack of liquidity in all end markets.

The flipside of this kind of liquidity crisis is that it's creating what we call once-in-a-lifetime lending opportunities for those institutions that have liquidity and have lending expertise, which is what we have. Not only will there be attractive new origination opportunities but we think there will be very attractive portfolio and business acquisitions as well. This is what the Company is positioned to take advantage of.

Turning to Page 11, we comment on our macro view on credit, or in other words how does the current credit and liquidity cycle inform our view on credit? I think it goes without saying that the US economy is in a recession, and the challenges that are affecting the financial institutions are obviously rippling through the economy and have a very significant impact, not only in businesses but consumers as well. We think this cycle will last -- though we are not at the bottom of this cycle and this cycle could last for 12 to 18 months. It will be tied to the housing cycle. The good news on the housing cycle is people have stopped building new homes, so we could start seeing some equilibrium in that business in the next year to year and a half.

This recession will have an impact on commercial credit, as well as the impact it has already had on consumer credit. In our judgment, that impact will have some modest effect on CapitalSource. Our credit statistics, which has been at the low end of historical ranges, we believe will trend modestly higher, but are expected to stay within historical ranges of charge-offs in the 50 to 125 basis points range.
The key word there is "modestly". Across the last year, our portfolio has not grown significantly and our credits that have been either stable to slightly improving, which again I think speaks to the quality of the credit performance the Company has done.

The reason we think this company will outperform its peers from a credit perspective are twofold. First is how we built the business. We've got specialized expertise in focused markets, and the portfolio is anchored by what we view as recession-resistant sectors such as healthcare. The portfolio also has a heavy senior debt orientation at about 90%.

But secondly, it's how we manage the business. We have a direct origination focus; we have control over the lending and credit process; and we've always run the business with a credit vote first orientation.

Turn to Page 12. Here's a quick snapshot as how we see the market opportunity from a lending perspective. What we've detailed on this page is how the spreads of single-B leveraged loans have evolved across the last almost ten years, and you see where we are in terms of the cycle.

Switching to Page 13, we touch on are kind of macro investment thesis in the commercial lending business, which can best be summarized with the following four points. Today's market conditions will produce incredibly attractive opportunities to make senior loans with very conservative structures and at very high yields. We do expect the securitization markets to remain closed or impaired for anything but the most commodity-like asset class, and this could last for years.

So clean depositors -- and the key word there is "clean" -- will have the only dependent source, dependable source of balance-sheet liquidity. Many of the incumbent banks are obviously undercapitalized, have asset quality challenges, and lack the effective lending infrastructure that companies like CapitalSource has to take advantage of this market opportunity. So if you can manage a proven asset-origination platform and you combine that with a sound depository, it should be a very significant value-creating opportunity.

Turning to Page 15, we summarize our near-term strategy with four points. First, we plan on filing the registration statement for the Initial Public Offering of CapitalSource Healthcare REIT. We expect this offering to raise CapitalSource an additional $300 million of liquidity to add to our war chest. This carve-out is effectively a carve-out of our Healthcare net lease segment. CapitalSource will manage the business, we will be the majority owners in the business after the IPO. Jim Pieczynski, who is the Co-President of CapitalSource's health care and specialty finance business, will be the President and CEO of CapitalSource Healthcare REIT. So that's the first thing.

The second thing is we plan on aggressively growing our commercial lending business inside the new bank. We will originate loans and opportunistically pursue both portfolio and business acquisitions while maintaining our uncompromising credit standards. There's really three points here to focus on. First of all, it's a terrific time to make loans, and Tom will touch on some of our guidance around the volume of loans we think we can make in this environment. But secondly, it's also a great time to look at portfolio acquisition opportunities, and we already have a deep pipeline of these opportunities that we're looking at. Then finally, there should be business acquisition opportunities, both from a lending perspective and potentially from a depository perspective, that could also be game-changers for the Company going forward.

Third, we plan on shifting the commercial lending funding mix to deposits and to unsecured funding, which we think will create a stronger balance sheet over time, and effectively shift it away from secured lending or secured borrowing and securitizations, again because we think that will be a very difficult market for many years to come.

Then we are going to set CapitalSource dividends at bank-like levels in order to retain capital to invest at high return on equities. This is no surprise; we've been talking with investors about this for some time. We will continue to pay quarterly dividends but at substantially lower levels so that we can retain our earnings and further enhance our robust liquidity.

Turning to Page 16, we touch on our longer-term strategy. Again, it starts with continuing to originate commercial loans as long as risk-adjusted yields remain attractive. When liquidity ultimately returns, we want to maintain the discipline we've always
demonstrated and scale back lending and invest the excess capital that will exist on this balance sheet to optimize balance-sheet leverage. All of our models indicate that this business will be significantly over-capitalized at some point in the future as we grow into the bank which affords us greater leverage, and when we model at some point in the future the lending opportunities becoming less attractive and the portfolio not growing as significantly. The business should start deleveraging significantly, and we should have excess capital that we believe we can invest in the business either through share buybacks or other ways of enhancing shareholder value.

The third point of the long-term strategy is to continue to leverage the infrastructure we have, both the lending infrastructure and the deposit infrastructure, to drive a higher return on equity; and then finally, explore opportunities to enhance our banking franchise, including modifications to our charter to enable us to offer a broader range of retail and commercial banking services to our customers.

So with that, I’m going to turn the call over to Tom Fink, who will begin on Page 17 (technical difficulty) touch on some of the key drivers for the business.

Tom Fink - CapitalSource, Inc. - CFO

Thanks, John.

So, in terms of what this all means for the financial performance in the business over the next few slides, we wanted to provide some more detail about that.

First, the key financial drivers for the Company -- asset growth, historically an important driver of our results. We expect it to continue to be an important driver of our results, given the growth phase that we are entering into with CapitalSource Bank. With the market conditions that exist right now, we expect to be originating new, higher-yielding loans that will increase the average asset yield in our portfolio.

Also, importantly, and the increasing asset scale will allow us to leverage the essentially fixed-cost investment we have in both our lending platform and the retail banking platform. This will drive efficiencies in the business.

Importantly, the pace of deployment of the capital, as we see these opportunities and how quickly we are able to act on them, will drive the leverage and the returns overall.

The second key driver is credit quality. It's always an important driver of the business. As we've discussed before, we are expecting our credit statistics to trend modestly higher but for our annualized charge-off or losses to stay within the historical levels. So again, a very important element of the capital source business is that we have very strong credit quality; we are expecting that to continue.

Utilization of CapitalSource Bank -- very important. We expect to see an increasing percentage of our commercial loan portfolio in the Bank and that the percentage of funding we have from deposits will also increase. The combination of these two things will drive higher returns in the business.

At inception, CapitalSource Bank holds 43% of the commercial assets of CapitalSource, and deposits today provide 41% of the funding in our commercial lending business. We expect both of those numbers to grow.

The additional opportunities to capitalize on the market disruption that John alluded to -- we see portfolio acquisitions or business acquisitions that could really be game changers. It's hard to forecast the timing and the scale or the impact of those, but they are clearly out there and we look forward to seeing them.
On Page 18, just to provide some statistics about what these key parameters could look like over the next three years, the first is asset growth or new loans, either through direct originations or portfolio or business acquisitions. We are expecting to see $3 billion to $6 billion over the next three year period per year. One of the variables that obviously could affect this and move it to the higher end of the range is the portfolio or business acquisitions.

Spreads on new assets, given the market conditions that exist between 5.5% and 8%, that’s as a spread to LIBOR, that’s an all-in spread including fees and other yield-enhancement features.

In terms of leverage in the business, historically we’ve talked about a debt-to-equity ratio, but with the importance of CapitalSource Bank, we are changing our leverage metric to a risk-based capital ratio, which is capital as a percentage of the risk-weighted assets.

You hear a lot of discussion in the market about capital ratios with banks, and typically people talk about 8% ratios or high single digit ratios. CapitalSource’s commercial lending business will continue to be very, very well capitalized with a 15% to 25% capital ratio over the next three years.

Operating expenses in the range of 1.7% to 2% of assets. We are starting at the high end of that but as we grow the asset scale of the business, we expect to see these deficiencies I talked about, and expect to see operating expenses as a percentage of assets fall to the lower end of that range.

Annual charge-offs in the 50 to 125 basis point range, the historical range that we’ve seen -- we expect that to continue.

Non-accruals, which is credit statistics that we report, within 1.5% to 2%. Cost of funds in the business, obviously helped by the addition of deposit-based funding, in the range of 75 to 100 basis points over LIBOR. All of this will generate an after-tax ROE of between 11% and 16%, and the important point to emphasize here is that’s assuming a full 39% tax rate for the commercial lending.

We are planning to release our earnings for the second quarter next week. While this call is about CapitalSource Bank and the exciting news that is for CapitalSource, we did think it was appropriate to talk a little bit about the earnings here.

So to give you a preview for the quarter, we are looking to have GAAP earnings of between $0.23 and $0.26 per share and adjusted earnings of $0.10 to $0.13 per share. As we’ve previously provided some disclosure in the past, we expected the second-quarter adjusted earnings to be negatively impacted by the sale of more than half of our agency [NBS] portfolio early in the second quarter.

The last point, importantly, is credit, again remaining within the historical ranges which we expect to continue through the second half of 2008 as well.

**John Delaney - CapitalSource, Inc. - Chairman, CEO**

Okay, thanks, Tom. We will wrap up and we will open it up for questions.

Again, this is a transformative event, we believe, for CapitalSource in that the Company is being -- is really entering this next phase as a bank. Fortunately, we have liquidity at a time when we are seeing a more attractive market opportunity than we’ve ever seen in our history. This should allow the Company to return to its roots as really a growth company. We are uniquely positioned to attack this opportunity, not only for the liquidity that we’ve commented on several times, but because of our ability to lend money and the fact that we’ve proven that across the last several years.
So we project substantial asset growth across the next several years, our credit performance to stay within the historical ranges, and steady progress towards the higher after-tax ROEs as the business unfolds across the next several years, which will take a lot of work. We are obviously going through a transformation of the Company and a transition for the Company, but we think the future is incredibly bright.

So with that, I would like to open it up for questions.

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions). Sameer Gokhale, KBW.

**Sameer Gokhale - Keefe Bruyette Woods - Analyst**

John, one of the things that I've been wanting to get some more color on is why isn't the Company committing to de-REIT-ing, say, for 2009? I realize you may be working through some things, but it seems like you emphasize the importance of retaining capital in this kind of environment. You have the Bank now. You are spinning off the Healthcare sale-leaseback assets into REIT, so why the reluctance to commit to completely de-REIT-ing in '09? That would be helpful. Thank you.

**John Delaney - CapitalSource, Inc. - Chairman, CEO**

Sure. It's a great question, and it's a question which we wrestle with from a communications standpoint. Just from a legal perspective, there's the right time to announce that decision, which we are not technically doing right now. But I think, when you look at the presentation, you see we are assuming a 39% tax rate; you've concluded obviously that our focus is on retaining earnings and having the Company positioned as a bank. We've indicated we are going to change charter, which would clearly require, at least in our judgment, we wouldn't able to change the charter as a REIT.

So I think your conclusion is the right one. It's just that we are not in a position right now to officially, legally say that that's what we're doing for 2009.

**Sameer Gokhale - Keefe Bruyette Woods - Analyst**

Okay, that's really helpful color. Thank you, John. Then the other question was just I guess the new products or services that you mentioned that you might want to offer in the future that you currently aren't able to offer. Can you give us a sense for what kind of products or services you are envisioning?

**John Delaney - CapitalSource, Inc. - Chairman, CEO**

Sure. I mean, one of the things that we think is a terrific kind of long-term opportunity for us is CapitalSource finances over 1000 companies. These companies are dynamic growing middle market companies and they are actually substantial businesses. We are not a small-business lender; we are financing middle-market companies that have employees anywhere from 100 to 5000, have revenues from $50 million to over $1 billion, and we are the principle lender of most of these companies. Our relationship with these companies is the highest level, either with the owners of the business in most cases, because so much of what we do is finance acquisitions for private investment firms, but certainly with the CEO and CFO of the companies.
So we think there's a fairly natural cross-sell of banking services to these customers that will both entrench us more deeply with these customers, from a relationship standpoint, but will also be a source of additional kind of low-cost deposits. Now, that strategy is a lot easier to say than it is to execute upon because there's a lot of hard work that goes into doing that. But we think it's a very significant opportunity not only to give us access to more deposits at lower-cost funds but to really allow us to be a stickier relationship with a lot of these customers.

For example, most of our customers, we require them to set up lockboxes, and we require them to set up lockboxes at banks all over the country. There's no reason why CapitalSource Bank shouldn't be providing those lockbox services to those customers. So, there's a whole list of things we should be doing to make ourselves the premier business bank. Did it involve us having a charter that allows greater flexibility? We have an industrial loan corporation charter which is a terrific charter if you just want to view the business as a funding source, but we view what we are doing here with the Bank as more than a funding source, which is one of the reasons we hired someone of Tad's caliber, because he knows how to run a real bank, not just a funding-source bank. That's what we want to make CapitalSource Bank into.

So those are some of the things we are thinking of. I would say we are a little less focused on offering additional services to retail depositors. We think the service we offer retail depositors right now is perfect. We offer them really, really good customer service, and we pay them a fair return for their capital. You shouldn't expect to see us getting into kind of consumer lending businesses or things like that, but where we think the cross-sell opportunities exist is really on the commercial side.
because, considering the situation this institution has been under and considering the direction that they had from their regulators, they had no incentive to have more deposits than they have now. In fact, they had an incentive to have less. What I mean by that is deposits are a liability and it cost money to have deposits, as you know. If you are operating in an environment where you can't do anything with the deposits or with the cash, your incentives are to shrink those deposits so that you can stem the bottom-line bleeding.

So, in my judgment, most of the shrinkage of the deposit base at this institution was by design, meaning having more deposits just meant more red ink for the institution, because they could not invest the cash that they had from those additional deposits in anything that would earn a positive return. So they effectively shrunk the deposit base.

But in terms of what we are doing with the deposits, there’s a lot of things we are doing but let me have Tad chime in on that, and then I will come back to your question about what percentage of the business we think should be funded with deposits. So I will turn it over to Tad.

Tad Lowrey - CapitalSource, Inc. - President & CEO of CapitalSource Bank

Okay. As far as what we are doing to stem the outflows, we are doing three things. One, we are changing the name on the door; that’s huge. Number two, we are putting capital into the institution; and number three, telling people about it. We’re telling our customers about it, and we are telling the market about it.

We are sending letters to customers who left the institution due to concerns about quality. We are already starting, as of Friday, getting some of those people coming back in.

All that aside though, if you look at the deposit-flow trends for Fremont, they ebbed and flowed based on what set of bad news was out. They had actually stabilized until the IndyMac closure, which was I believe around the 14th. IndyMac is in our backyard; these branches are very near IndyMac branches, and so the institution began to suffer more outflows once that occurred. So we think we’ve probably already stemmed the outflows, and the question is how aggressive we want to be in growing that deposit base back, and the answer to that lies in the loan demand. As I stated, we have a lot of excess liquidity now, so we don’t have a strong desire to “pay up”, but we think we have the ability to grow that as rapidly as we need to.

John Delaney - CapitalSource, Inc. - Chairman, CEO

Bob, I'm in that California and I was here all weekend, and we had a major marketing effort going on across the weekend in all of the California papers and in the news media, the radio spots, etc. I actually spent the weekend reading more California newspapers that I ever have, comparing ourselves to other California depositories.

The interesting thing is, in large measure, our deposit base has stabilized, and we are not the high-cost or -- I want to make sure I say this the right way -- we are not kind of at the top of the list in terms of what people are paying for deposits in the Southern California market, just based on the limited scan that I've done of our competitors out here.

So I think we’ve got a stable deposit base. As Tad said, we don’t really have to increase rates right now because we have excess liquidity in the bank. Again, we would be in the same position as Fremont was in, which is, if we had another $1 billion of deposits, it would negatively affect the performance of the institution because we don’t have the loans in there yet.

So, I think to kind of lift up and give you kind of a summary of the various stuff we touched on, first I think a lot of the shrinkage of the deposit base was by design. Second, there was clearly -- and you could track it by pulling out a timeline and looking at events. You can see when there would be negative news about Fremont, which there was a lot of across the last year, you would see relatively modest reductions in the deposit balance, kind of order of magnitude $25 million to maybe $75 million, kind of around one of these negative announcements. And then it would immediately kind of stabilizer. That’s kind of been the trend.
The IndyMac thing, which was unfortunate not only for IndyMac and the regulators, it was potentially unfortunate for the whole banking system that it even got to that point, clearly had a negative impact on the institution. But again, we are seeing the stabilization there, so the trend had been negative news, some shrinkage of deposits, and then a stabilization within a few days. But again, as Tad indicated, we've got good news, we've got a new name and we are not really worried about that issue. So, that's kind of our comment on the deposits.

In terms of what percentage of the business can be funded by the Bank, we think 75% to 80%. You know, Tom, I don't know what you would add. I mean, we've gotten very detailed projections for the business going forward, which we used to come up with the guidance numbers we've put in the book. And if you go out across several years, you really see 75%, 80% of the business funded by the Bank. We think there will always be funding occurring outside the Bank, in part because we plan on managing the Bank. We've got very specific underwriting guidelines that have been reviewed and agreed to, if you will, by the regulators. We think the most effective way to run the business is not necessarily to only originate what goes in the Bank; we have to originate into our markets what we think makes sense, and we need to run the business in a way so we don't have 'pressure' to put things in the Bank that shouldn't go in the Bank. But we think that will shake out to be about 75% to 80% of the assets in the Bank.

I don't know, Tom, if you would --.

Tom Fink - CapitalSource, Inc. - CFO

No, and I think that would be great if we can get there. Then we certainly think we have the potential to do that, both the strength the franchise and the opportunity to grow the left side of the balance sheet in this market as well.

Bob Napoli - Piper Jaffray - Analyst

Tom, just are there any other -- what other funding challenges are there for CapitalSource in the current market? Obviously, you've raised a lot of liquidity with the Bank. What else do you have going -- what are the other challenges over the next year?

Tom Fink - CapitalSource, Inc. - CFO

No, Bob I would say we're actually I think in pretty good shape. Earlier in the year, we took care of the renewals of our credit facilities. You know, with the close of the bank, we sold into the bank in excess of $2 billion of loans that had been funded in credit facilities and other places, so that amount of funding, certain amount of funding was paid down outside the Bank. So I think we are really actually in very good shape and feel very good about where we are.

Looking ahead to the central IPO of CapitalSource Healthcare REIT that's another positive liquidity or capital-generating event for the Company as well.

Operator

Don Fandetti, Citi.

Don Fandetti - Citigroup - Analyst

I have an accounting question. As you look out post de-REIT-ing, should we respect an adjusted EPS or would you focus more on a GAAP EPS?
Tom Fink - CapitalSource, Inc. - CFO

Well, I think it's a good question, Don. You know, as John said, we haven't officially made any decisions about that yet, but I would say that certainly the GAAP EPS, once we are -- you know, with the Bank is a much more important number, with the IPO of the healthcare REIT, which would initially be consolidated on our balance sheet, since we'd be the majority owner. That's really the principle source of one of the drivers of adjusted EPS, which is the depreciation on the real estate assets, so GAAP EPS has always been important. I think it becomes even more important going forward.

Don Fandetti - Citigroup - Analyst

So when you talk about a targeted ROE of 11 to 16, is that an ROE on earnings with provisions added back or not?

John Delaney - CapitalSource, Inc. - Chairman, CEO

No, that's a GAAP number.

Tom Fink - CapitalSource, Inc. - CFO

Yes, that's a GAAP number.

John Delaney - CapitalSource, Inc. - Chairman, CEO

That number will move around. There will be a point in time when we -- as Tom indicated, we have to consolidate the Healthcare REIT's operations on our books early on, because we will be the majority owner and the manager of it. So even though 30% or 40% of it will be owned by someone else, we have to take all of the depreciation on our books, right? So, but there will be a point in time when we own less than 50% of that business, and we think we will be able to not consolidate those assets on our books, so that depreciation will go away.

That will continue to throw some noise around the GAAP numbers, Don, particularly if that business grows, right. That depreciation could be $60 million, $70 million, $80 million a year coming our books, even though we are not the majority owner of it. So that could cause some noise around the GAAP numbers, but we think the metric going forward will be GAAP EPS.

Don Fandetti - Citigroup - Analyst

Okay. Then Tom, on the second quarter, I'm just trying to understand the difference between adjusted and GAAP PPS this quarter. I know you highlighted the sale of the agency assets, but can you just help me understand why it's a negative adjusted number? Are there any other sort of credit-related adjustments that need to be made for that difference?

Tom Fink - CapitalSource, Inc. - CFO

I mean, there are some credit differences in between where those two measures are drafted, but that's not the source of it. That really has to do with the realization -- you know, we had a similar effect last quarter, not to the same degree but we did sell a substantial amount of the residential mortgage portfolio assets to the agency [NBS]. We sold some in the first quarter, and sold more than half of the rest in the second quarter.
As we talked about in the first-quarter earnings for adjusted-earnings purposes, there was a realization of a loss, a realization of basically the widening in mortgage spreads that we've seen. We forecasted that for everybody when we talked about the first-quarter earnings; we forecasted that for the second quarter. So that's a big driver of the difference here.

**Don Fandetti** - Citigroup - Analyst

But that's a reduction of GAAP, and then you add that back for adjusted, no?

**Tom Fink** - CapitalSource, Inc. - CFO

No, it doesn't affect GAAP because -- as much because we had already been, for GAAP, marking that portfolio to market.

**Don Fandetti** - Citigroup - Analyst

Oh, it's just the realized sale?

**Tom Fink** - CapitalSource, Inc. - CFO

(multiple speakers) adjusted earnings, right. For adjusted earnings, since we were up buy-and-hold, we were preferring that. Now the we are not buy-and-hold and we've actually sold those securities, we are now realizing that for adjusted earnings. But it did not affect the GAAP numbers.

**Don Fandetti** - Citigroup - Analyst

Okay, that clears it up. Thank you, Tom.

**John Delaney** - CapitalSource, Inc. - Chairman, CEO

Effectively, Don, we are carrying a loss for adjusted-earnings purposes in that portfolio. If we ever chose to sell, we would have to realize it, which is what happened.

**Don Fandetti** - Citigroup - Analyst

I got it, thanks.

**Operator**

Mike Taiano, Sandler O'Neill.

**Mike Taiano** - Sandler O'Neill - Analyst

A question on the deposits -- in terms of a what percentage, if you have it handy, of you deposits would be over $100,000? Could you maybe give us some sense of what the maturity timetable is on the CDs, maybe over the next six months or so?
Tad Lowrey - CapitalSource, Inc. - President & CEO of CapitalSource Bank

Yes, when you say over $100,000, there's a misperception out there that all deposits over $100,000 are uninsured. We have a lot of individual retirement accounts which are insured up to $250,000. Our branch personnel, as you might imagine by now, are very highly trained on how to structure accounts to most fit a consumer's needs. Having said all of that, we think roughly 15% of the deposit base is over that number, and we think less than that 15% is uninsured.

We think, going forward, that we actually have a place, for those who want to, to put uninsured funds, because of the safety that we have.

As far as maturities, about what you would expect -- about 10% to 11% are demand-type accounts with the remainder in time deposits. As you might expect, consumers don't really go long these days and we don't have a lot of wholesale funds. We have a very small portfolio of broker deposits at very high rates that will be running off over the next 12 months.

On the retail base, though, the average duration is about seven months, which is about what you'd expect. Most people go three, three to six months; some of them go a year. We have of course accounts going out as long as five years, but the duration is seven months, which is typical with other institutions I've seen.

Mike Taiano - Sandler O'Neill - Analyst

Then just the second question -- when you talk about exploring opportunities to enhance the banking franchise, would that also include potentially looking to acquire another bank or would that be not something you would consider at this point?

John Delaney - CapitalSource, Inc. - Chairman, CEO

I think we would definitely consider it. I mean, like most things, we will hold it to a very high standard, because we have a depository that we think has terrific potential associated with it. So our standard would be geographic, right? We are very focused on California. Our standard would be very accretive to CapitalSource, either from a book or earnings perspective. But in this environment, you know, if you think about who or what institutions would be the winners, if you will, I mean this environment should present some of the most attractive opportunities not only to make loans, which we touched on, not only to do portfolio acquisitions, which we've touched on, not only to do kind of business acquisition of asset origination platforms, which we've touched on, but it also should create opportunities around depositories similar to the opportunity that we are kind of unfolding here today, which was the result of our work across the last many months.

So it's conceivable that our very high standards could be met not only from a geographic focus, because obviously California banking is a big business, but also from a return perspective. So we certainly won't rule it out. It would be an accelerating event in terms of being able to offer more services, potentially because we could pick up institutions that have a lot of that plumbing built in.

Mike Taiano - Sandler O'Neill - Analyst

Great, thanks a lot.
Scott Valentin - Friedman Billings Ramsey Capital Markets - Analyst

Good afternoon. Thanks for taking my question. Just one question -- you mentioned potential portfolio and business acquisitions. Are there any segments you are looking at particularly?

John Delaney - CapitalSource, Inc. - Chairman, CEO

Yes. The segments we are looking at are things where we already have expertise. So, our pipeline of kind of portfolio acquisitions is a good size at this point, but all of those opportunities are in segments where we have specific expertise. So you could call it healthcare; you could call it our resort finance business, our corporate finance business. So it’s areas where we already know the platform probably pretty well because we’ve been competing against it, and we have the expertise to underwrite the assets. We don’t feel, in this market, we really have to venture kind of outside of our box of credit expertise.

Scott Valentin - Friedman Billings Ramsey Capital Markets - Analyst

Okay. As a follow-up question, with regard to the regulators and capital requirements of the Bank, I think you mentioned you have almost 15.% capital. Can that number come down over time allowing for more leverage in the Bank, or is that number set for a number of years?

John Delaney - CapitalSource, Inc. - Chairman, CEO

Well, I don’t think we can disclose kind of the specific parameters of our business plan with the regulators. I think it’s fair to assume, if you look at what kind of -- how banks are typically -- the kind of capital ratios that banks typically have, and if you think of about the quality of our assets and the way they’ve formed, I think it’s reasonable to assume that we are taking the posture that we want to run a very well-capitalized bank because we think that’s a strategic asset. Having that kind of a fortress-like balance sheet in the bank we think is a strategic asset. We are not necessarily, on a long-term basis, required to do that.

Scott Valentin - Friedman Billings Ramsey Capital Markets - Analyst

Okay, thank you.

Darrin Peller - Lehman Brothers - Analyst

Just to follow up again real quickly on the capital side, when you talk about adding roughly $3 billion to $6 billion of loans per year over the next few years, I mean is that assuming -- and without needing more capital I mean, is that assuming the sort of 15% target range, or is that just -- I mean because it seems like the range from 15% to 20%-plus is pretty wide.
John Delaney - CapitalSource, Inc. - Chairman, CEO

I mean, yes, we are assuming the business levers up. The business is particularly un-levered today, which is kind of the way you want to run the business today. So, the high end of the range is kind of where we are today. As assets migrate -- as the business shifts into the Bank, the ability of the Company to run with higher leverage goes up.

So what we're assuming that happens is that, first of all, in those $3 billion to $6 billion numbers, which we do believe we can do without additional capital because of the kind of capital war chest we have today and because of the dividend policy going forward, a couple things are assumed there. Number one, loans pay off, so the business doesn't grow that much per year, right, because we do have a fair amount of turnover on our loan portfolio.

But secondly, that the leverage in the business increases principally through the shift of business into the Bank. Because even at these high capital ratios that we have at the Bank and even with the view that we will run it at those kind of levels for a while, because again we think having a very strong balance sheet is an asset, that's still much higher leverage than we run outside the Bank. So just by shifting assets in the Bank, the ability of the Company to leverage itself goes up. So what you'll see is the high end of that range is kind of where we are today, and then across the next several years, we will start moving more towards the low end of that range.

Darrin Peller - Lehman Brothers - Analyst

Okay. When you comment on the commercial [like] dividend, are we thinking somewhere in the 20% to 30% payout type ratio range or --?

John Delaney - CapitalSource, Inc. - Chairman, CEO

Yes.

Darrin Peller - Lehman Brothers - Analyst

All right. And then the last thing --

John Delaney - CapitalSource, Inc. - Chairman, CEO

And you know, to be honest with you, another reason we are not announcing that today is we are still doing a lot of work on that. I think bank-like dividend, the concept of a bank-like dividend is changing and so we just want to make sure we do all of our work and come up with a view that -- I think there's two things we are balancing.

Number one, in light of the market opportunity in front of us, we believe strongly in the best thing we can do for our investors is to retain their earnings and invest in the business. Secondly, we do realize that it is important, not only for some of our shareholder base but also for many investors and banks, to have a regular quarterly dividend. So, we are trying to balance those two things and come up with the right answer.

Darrin Peller - Lehman Brothers - Analyst

All right. Then on the next two quarters where the dividend was -- you haven't changed that yet, but I think you had alluded to it when you raised capital, that there would be very likely -- you have plenty of room to cut the dividend if you want to --
John Delaney - CapitalSource, Inc. - Chairman, CEO

Yes.

Darrin Peller - Lehman Brothers - Analyst

-- while maintaining the REIT status. Are we just waiting for the quarter earnings to hear more about that?

Tom Fink - CapitalSource, Inc. - CFO

Well, I mean, your premise is correct. In terms of maintaining the REIT status, there's plenty of room to do what we would like to do with respect to -- or thinking about doing with respect to the dividend. But we've not yet announced it and we may have more to say about it next week at the earnings release. But I don't want to promise that at this point.

John Delaney - CapitalSource, Inc. - Chairman, CEO

Yes, but directionally where we are going is the quarterly dividend level for the rest of this year and into next year that's consistent, so the glide path if you will for the rest of '08 and '09 will be pretty consistent. There may be a need for a special dividend at the end of the year to meet the REIT dividend requirements. It all depends on where we set that quarterly number.

Darrin Peller - Lehman Brothers - Analyst

I got you.

John Delaney - CapitalSource, Inc. - Chairman, CEO

But the real plan is, you know, okay, let's set the dividend for the rest of '08 and have that basically be the plan into '09 as well at this point. Then if you need a clean-up dividend for the REIT status, we can take care of that in early '09.

Darrin Peller - Lehman Brothers - Analyst

All right, understood. Thank you.

Operator

Omotayo Okusanya, UBS.

Omotayo Okusanya - UBS - Analyst

Good afternoon, gentlemen. Thanks for the call. A couple of quick questions around CapitalSource Bank. I mean, now with the bank now being well-capitalized with the $920 million in equity capital, how much capital infusion did you guys have to put into it to kind of stabilize things out?
The way this deal was done was we were issued a new charter. We set up a subsidiary, the subsidiary was issued a new charter and that subsidiary, with its new charter, purchased the assets from Fremont, which were the deposits, the A participation interest with IStar, and then certain relatively inconsequential assets in terms of kind of book value associated with branches, IT. So all that capital that went in is all fresh capital (multiple speakers).

So we basically -- one way of thinking of it, a simple kind of way to think about it is we wrote $921 million check and gave it to our subsidiary. That subsidiary was then granted deposit insurance by the FDIC, and granted its charter by the FDIC and the Department of Financial Institutions of California, the DFI. That subsidiary, armed with deposit insurance and its $920 million of capital, bought the assets from Fremont. The assets were the deposits, the cash -- because Fremont had a lot of cash. We bought the cash; we bought the deposits; we bought the A Note, the IStar A Note; and we bought some assets associated with the branches. That’s the first step.

Then the second step is that bank, our new bank, bought $2.1 billion of loans from CapitalSource. I think an important point that I want to make is those loans were valued by an independent third-party evaluation firm, a firm that, in our judgment, was deemed acceptable to the banking regulators. So it is fair to say that it’s a very well-regarded firm that does a lot of work in this kind of territory, and they valued these assets at 99.5 which we had to do to determine how much capital we needed against those assets. But I also think it speaks to the asset quality, that in light of this market they were valued at 99.5.

Then, just on a going-forward basis, how much leverage do you actually (inaudible) apply to the bank to kind of meet the growth targets that you guys are putting out there?

Well, I think we expect to maintain the Bank at slightly north of the -- you know, about the level (inaudible) Tad I think talked about 15.6%, so a number in that zip code, and then the leverage, or the capitalization outside of the Bank would be a little bit higher than that.

Okay, that’s helpful. The second thing -- in regards to just the earnings pre-announcement, thanks for talking about the adjustments to that number, but even when I think you adjust most analysts’ numbers for the $36 million charge in the second quarter that you guys had announced earlier, I think you still kind of end up much lower in regards to your adjusted earnings versus the Street. I was just wondering if you could give us any sense of what the other deltas are between -- you know, most people on the street kind of around $0.40 and the announced number of $0.10 to $0.13.
Tom Fink - CapitalSource, Inc. - CFO

Yes. Well, I think certainly the major one, the one that we talked about, I'd say there's a couple of other things in that category where there wasn't as much of a GAAP impact but, from an adjusted earnings perspective, there was an impact.

You know, also -- not to get into all of the details, but we are expecting to see higher tax expense this quarter. We were able to repurchase some debt, which we did during the quarter at a discount, which was in the tax (inaudible) subsidiary, which has the effect of driving up the taxable income, or the income in the TRS which drives the tax rate as well. So a number of things like that, but the (multiple speakers) --

John Delaney - CapitalSource, Inc. - Chairman, CEO

(multiple speakers) -- derivative-related costs.

Tom Fink - CapitalSource, Inc. - CFO

Yes, so the main point was to follow up, as we had predicted with everybody, that the sale of the substantial portion of the residential assets, more than half of that business, which we think was a good thing to do, there was an adjusted earnings impact to that which we had forecasted.

John Delaney - CapitalSource, Inc. - Chairman, CEO

Yes, and I think -- and we didn't want to make this call about the earnings. It's obvious we are going to do that next week, and we're still not completely finished, so we want to bracket all of the numbers, but we felt we ought to talk about them because it would be unusual to have this call and a week later have the earnings call and not comment on it.

But I think the headline that I want to give you on the earnings, both on the GAAP and the adjusted earnings side -- there's nothing there in terms of like credit issues that are driving these numbers.

Omotayo Okusanya - UBS - Analyst

Are there any kind of merger-related costs in there as well?

John Delaney - CapitalSource, Inc. - Chairman, CEO

There is. The GAAP numbers, for example, were -- you know, when we moved loans into the Bank, that accelerated a lot of financing fees associated with those, where those loans were financed, right? Those loans resided in financing vehicles where we had financing fees that were being deferred over the life of those financings, so when you prepay those financings, which we did by effectively moving them into the Bank, you get an acceleration of pretty substantial fees. So there's some things like that.

What we plan on doing next week is going through these things obviously in detail to point out to you why they are mostly, I think, kind of under the category of noise related to this transaction, first of all, and secondly kind of how the Company is repositioned, being repositioned, which gets to the agencies being unwound and things like that. They are not really under the category of things that get to kind of the (multiple speakers) business.
Omotayo Okusanya - UBS - Analyst

(inaudible). Okay, great. Then just the last question, thanks for your patience -- just what you mentioned about credit. I mean just kind of given what we saw with some of your peers over the last week or so with many of these guys basically giving up on giving any type of guidance with regards to credit -- you know, credit in their portfolios is performing much worse than they ever envisioned. How do you get comfortable with the notion of kind of staying within your historical annualized range when so many of your peers are just kind of blown out of that range by several multiples?

John Delaney - CapitalSource, Inc. - Chairman, CEO

Right. Well, it's a good question. Let me spend a little bit of time on the answer as opposed to just giving you a short answer.

The past year, let's kind of think about what's happened in the past year. In the past year, our portfolio hasn't grown substantially. In fact, it shrunk. Our credit performance has been, even in terms of the various metrics that you use to track the business, non-accruals, things like that, has been relatively stable, as you know, which I think is important because, as the portfolio seasons, everyone expects the credit statistics to deteriorate, which is totally logical and it happens with every seasoned portfolio.

Our portfolio is really seasoned well across the last year because it really hasn't grown much, what we've really been doing is living with the portfolio we effectively had a year ago. We have not seen a significant deterioration in credit, which we are very pleased about.

We are somewhat kind of pessimistic about the economic environment. It would be my judgment that this portfolio, it was not to be -- if the portfolio where to stay as a static pool, you would see a modest decline in the credit performance of the portfolio, which I think you totally expect as it continues to season. Couple that with the fact the economic condition is getting worse. (multiple speakers)

Omotayo Okusanya - UBS - Analyst

(multiple speakers)

John Delaney - CapitalSource, Inc. - Chairman, CEO

So let me just finish. If we were sitting here today and saying "We are not going to make any new loans, we are just going to have this $9-plus billion portfolio kind of run off across the next few years," I would probably say to you that we would expect the credit statistics of that portfolio to start getting outside the normal ranges, which I don't think would be a surprising statement to you considering everyone knows that a portfolio that runs off, the credit gets worse associated with it as a percentage of the assets.

But what's really going to happen is this portfolio is going to grow quite substantially, we believe, across the next several years.

Omotayo Okusanya - UBS - Analyst

I got it.
John Delaney - CapitalSource, Inc. - Chairman, CEO
That will add to the denominator, so even though the current kind of static pool of this current portfolio experienced modest credit declines, when applied to a larger portfolio -- which it will start increasingly becoming a larger portfolio (multiple speakers) -- yes.

Omotayo Okusanya - UBS - Analyst
I got it.

John Delaney - CapitalSource, Inc. - Chairman, CEO
You know, I'm really trying to be kind of brutally honest with you in terms of why we give the answer we do. There's a little bit of the math of it. Do you see what I mean? Which is kind of what I'm getting at.

Omotayo Okusanya - UBS - Analyst
Yes, definitely.

John Delaney - CapitalSource, Inc. - Chairman, CEO
But I don't want that to mask the fundamental view that we have, which is that this portfolio has been very carefully constructed. It's over 90% senior loans. We did not have to chase yield and go deeper in the capital structure. The portfolio is heavily anchored with stuff that I view as somewhat recessionary-resistant. I think we've got a great team of lenders who really work hard on the credit side.

So, in my judgment, even if this was a static pool [runoff] portfolio, it would outperform the peers.

So I apologize for the long answer there, but I wanted to kind of give you the whole view.

Omotayo Okusanya - UBS - Analyst
Those details were exactly what I was looking for, John, so I appreciate the brutal honesty, as you called it. Thanks a lot. Best of luck.

Dennis Oakes - CapitalSource, Inc. - VP IR
All right, thanks. Operator, thank you very much, and just remind everybody that there will be an archived version of this call today up on our Web site, probably in about an hour or so. Thanks.

Operator
Thank you, ladies and gentlemen. This concludes the presentation for today. You may now disconnect.